

Service Date: August 31, 1981

DEPARTMENT OF PUBLIC SERVICE REGULATION
BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MONTANA
* * * * *

IN THE MATTER of the Application) UTILITY DIVISION
of the MONTANA POWER COMPANY)
for Authority to Increase Rates) DOCKET NOS. 81.3.28 &
and Charges for Natural Gas) 81.6. 57
Service.) INTERIM RATE ORDER NO 4775a

FINDINGS OF FACT

1. On March 10, 1981 the Montana Power Company (MPC) filed an application to increase natural gas rates by \$15 .848 million on an annual basis. The filing was assigned Docket No. 81.3.28. Included in this amount was a proposed rate increase of \$6.80 million to recover the change in the Canadian Border Price to \$4.94 per MMBtu.
2. On April 10, 1981 the Commission issued Interim Rate Order No. 4775 granting revenues attributable to the increase in the Canadian Border Price less certain amounts associated with accrued severance taxes. The severance tax issue was discussed in detail in Order No. 4775. The net amount granted on an annual basis (subject to refund) was \$2,227,606.
3. On May 14, 1981 MPC filed its application for amortization of a negative deferred gas cost balance of (\$1,481,671). This amount was accumulated during the 12 month period ending December, 1980. This filing was incorporated into Docket No. 81.3.28.
4. On June 19, 1981 MPC filed its application for a general

rate increase totaling \$15,683,417. The filing was assigned Docket No 81.6.57.

If itemized, this amount translates to \$9,954,744 of gas costs and \$5,728,673 of nongas costs.

5. Affecting both nongas costs and gas costs is the proposed removal of the Aden source of gas supply. It also constitutes a radical departure from the gas mix proposed in the Docket No. 81.3.28 filing.

6. On July 2, 1981 the Montana Consumer Counsel (MCC) filed its notion to continue the hearing in Docket No. 81.3.28 (which had been set for July 28th) and to consolidate Docket Nos. 81.3.28 and 81.6.57 for purposes of hearing.

7. On July 15, 1981 MPC filed an application in Docket No.81.6.57 for interim rate relief totaling \$15,683,417. The application was filed consistent with MPC's interpretation of the Commission's "make whole" interim policy and consequently included the Aden source of gas supply.

8. At its agenda meetings of July 20, 1981 the Commission granted MCC's motion to consolidate Docket Nos. 81.3.28 and 81.6.57 for hearing. It also voted to suspend the July 28th hearing and hold an interim hearing August 18, 1981.

9. The interim hearing was held August 18, 1981 at 10:00 a.m. in the Commission's conference room at 1227 11th Avenue, Helena, Montana.

10. During the hearing the Commission staff requested that MPC modify its interim filing for the following assumptions:

A. Purchases of Canadian gas from Alberta & Southern (A&S) at Carway, Alberta should be reduced to reflect renegotiated contractual obligations, i.e., MPC should purchase 29.3 Bcf rather than 26.28 Bcf.

B. Reduced purchases from A&S should be made up equally from Montana producers and from company production at Aden and purchases of Canadian gas at Aden, Alberta.

C. Any market reduction adjustment attributable to the Anaconda Company lime kiln should be eliminated since this facility will purchase gas until at least December, 1981.

Mr. Doran provided this information to the Commission with a cover letter dated August 20, 1981.

11. Requests set forth in A, B and C resulted in a revenue requirement of \$13,496,821. They also more accurately reflect the Commission's interim policy of not prejudging issues in the present case and of retaining philosophies set forth in the Commission's most recent general rate order until a final subsequent order is issued.

12. With regard to the assumption set out in A (reduced take from Carway to the minimum contract quantity) the last Commission order stated:

The Commission finds that incurring additional take or pay deficiencies with regard to Carway volumes is an expensive, short-term solution. A longer term approach dictates that minimum contract quantities be taken at the lowest price, I. e., the current price, and an alternative, reliable source of supply be secured for future demands -- a

supply which is responsive to market conditions. (Order No. 4714a, Finding No. 77)

13. With regard to the assumptions set out in B (making up reduced take from Carway equally from Aden sources and Montana purchased gas sources) the Commission order stated:

MPC's other sources of gas supply (other than Carway) i.e., Montana company owned or royalty gas, Montana gas purchased from others and Canadian gas not subject to take or pay provisions (Aden), shall be addressed in this order according to economic dispatch. (Order No.4714a, Finding No. 84)

14. Given the reduced take of Carway gas, the Commission faces the question of determining the level at which other sources should be utilized to balance supply with market according to economic dispatch.

Usage of Montana royalty gas (the cheapest source of supply) appears to be closely linked with optimum reserve life levels as was prescribed in Order No. 4714a.

Montana purchased gas quantities (the next cheapest supply source) appear to be nearing the DCQ of 17 Bcf as found in Order No. 4714a if 2 Bcf of the Carway reduction is taken from this source. The Commission finds that attributing more supply requirement to this source of supply may not be possible because of deliverability restraints. Deliverability of this source will be further investigated at the regular hearing in this matter. In this interim only 2 Bcf of the Carway reduction will be sought from this source.

The rest of the Carway reduction must come from MPC's next

cheapest source of supply, namely Aden (at the 4 Bcf level and net of the adjustment described in Finding No. 16 Aden gas costs \$4.67/McF compared to \$4.94/Mcf for Carway gas).

15. Another adjustment to MPC's gas mix pertains to company use and loss as it relates to Montana purchased gas. Order No. 4714a stated:

116. MPC has recently adopted a new purchase acquisition policy which may not stimulate maintenance of Montana reserves because the producer is required to invest in facilities to connect his gas to MPC's system rather than further exploration:

Our current policy is, or the current direction that I have been given is that we should buy gas delivered wherever is possible, either to the gathering line or to the transmission line. The reason for that is so that we do not make any investment unless we absolutely have to. Our policy direction is that we minimize investment, capital dollars, wherever possible, and that is a major shift, I would say in the policy direction in gas acquisition since the response was given. (Tr. p. 109, Docket 6720)

118. The Commission finds that MPC's new acquisition policy requires less compressor fuel and results in lower losses of gas, and consequently determines that the company use and loss percentage should be adjusted downward to 5 percent for Montana purchased gas.

The Commission therefore finds 5 percent to be consistent with its interim policy outlined above and to be a reasonable use and loss amount for purposes of this interim. The effect of this adjustment is a reduction of the revenue requirement

by \$2,162,000.

16. Finally, the Commission notes from testimony given by MPC witness Percival at the hearing, that MPC, has again suspended a portion of its exploration and development program - the portion attributable to company owned properties at Aden. The Commission allowed several million dollars for this purpose in Order No. 4714a which is not being spent. The Commission was not receptive to MPC's suspension of the Montana E&D program: Accordingly, the Commission will not be receptive to suspension of any future E&D program for the reason that an inadequate return is being earned. " (Order No. 4714a, Finding 100). Percival indicated that suspension of Aden E&D resulted from actions of the Canadian government through its - Canadianization program. The Commission finds that it does not have enough evidence before it to agree or disagree with Percival's assertion but in the interim finds that the ratepayer should not be charged for E&D not being performed. This issue will be explored in detail at the hearing in this proceeding. The result of removing Aden E&D reduces the revenue requirement by \$1,275.000.

17. The Commission notes that the company's filing includes NGPA prices annualized through September, 1981 as they relate to Montana gas. This adjustment is consistent with tracking case philosophy (Docket No. 81.3. 28) which attempts to update the base cost of gas to the most recent known and measurable level. The Commission accepts the adjustment.

18. The Commission finds that other aspects of the tracking case filing and any resulting interim have been superseded or considered in this order and, therefore, finds no additional interim amount attributable to Docket No.81.3.28 above that granted in this order.

19. The Commission finds commencement of amortization of the negative deferred gas cost balance to be prudent at this time. This amount should be amortized until the balance is extinguished.

20. The Commission finds the following increase in revenue requirement to be warranted on an interim basis:

MPC filing revised for Reduced Carway. Purchase & Increased Market Attributable to the Anaconda Co. Lime Kiln:	\$13,495,821
Less:	
Reduction in Use & Loss Amount	(2,152,000)
Elimination of Aden E & D	(1,275,000)
Accumulated Negative Deferred Gas Cost Balance	<u>(1,481,671)</u>
Total	\$8,578,150

21. The Commission notes that its staff will be conducting an audit of MPC's books and records on September 1 and 2, 1981 in preparation of hearing. Any material deviations from the Commission's interim policy noted during this audit may be reason for alteration of the above revenue requirement.

22. Rate levels shall be determined using the rate structure found appropriate in Order No. 4714a.

CONCLUSIONS OF LAW

1. Applicant, Montana Power Company, is a corporation providing natural gas service within the State of Montana and as such is a "public utility" within the meaning of Section 69-3-101, MCA.

2. The Montana Public Service Commission properly exercises jurisdiction over the Applicant's Montana operations pursuant to Title 69, Chapter 3, MCA.

3. Section 69-3-304, MCA, provides, in part, "The Commission may, in its discretion, temporarily approve increase pending a hearing or final decision. "

4. The rate levels and spread approved herein are a reasonable means of providing interim relief to Montana Power. The rebate provisions of Section 69-3-304, MCA, protect ratepayers in the event that any revenue increases authorized by this Order are found to be unjustified in the final order in this Docket

ORDER

THE MONTANA PUBLIC SERVICE COMMISSION ORDERS THAT:

1. Applicant, Montana Power Company is hereby granted interim rate relief in the amount of \$8,578,150 on an annual basis to be effective for service rendered on and after September 7, 1981.

2. Montana Power Company, is authorized to file tariffs repricing natural gas service in the manner described in the preceding findings of Fact and to the degree necessary to generate \$8,578,150 in additional annual revenues.

3. Interim revenues granted herein are subject to rebate should the final order in this docket determine that a lesser increase is warranted.

Such a rebate would include interest at 13.45 percent per annum, as stipulated to by MPC.

DONE IN OPEN SESSION this 28th day of August, 1981 by a vote of 5-0.

BY ORDER OF THE MONTANA PUBLIC SERVICE COMMISSION.

Gordon E. Bollinger, Chairman

John B. Driscoll, Commissioner

Howard L. Ellis, Commissioner

Thomas J. Schneider, Commissioner
ATTEST:

Madeline Cottrill
Secretary

(SEAL)

NOTE: You may be entitled to judicial review of the final decision in this matter. If no Motion for Reconsideration is filed, judicial review may be obtained by filing a petition for review within thirty(30) day's from the service of this order. If a Motion for Reconsideration is filed, a Commission order is final for purpose or upon the entry of a ruling on that motion, or upon the passage of ten (10) days following the filing of that motion. cf. the Montana Administrative Procedure Act, esp. Sec. 2-4-702, MCA; and Commission Rules of Practice and Procedure, esp. 38.2.4806, ARM.